To The Shareholders of Co-Maxx Energy Group Inc.

We are pleased to submit this report on the Company's status for the year ended December 31, 1987.

Shareholder meetings of Cochrane Oil & Gas Ltd. and Maxxwell Energy Corp. held December 18, 1987 overwhelmingly approved the Amalgamation of the two companies to form Co-Maxx Energy Group Inc. The Amalgamation was completed January 11, 1988. Anyone still holding share certificates of either Cochrane or Maxxwell is encouraged to have them exchanged for Co-Maxx shares.

The enclosed audited financial statements for the year ended December 31, 1987 reflect the operations of both Cochrane and Maxxwell and the effect of all transactions relating to the Amalgamation. The statements supplement the Information Booklet dated November 25, 1987, forwarded to all shareholders prior to the shareholder meetings of December 18, 1987. For a more complete update on the current activities of the Company, shareholders should read the enclosed Interim Report for the first quarter of 1988.

Regarding an annual meeting of the shareholders, the Board of Directors has concluded that because of the information made available to shareholders at the meetings held in December, 1987, another meeting traditionally held 6 months after the year end would be repetitious, costly and of questionable benefit to the shareholders. However, to ensure that shareholders continue to be fully informed on the affairs of the Company, the quarterly interim reports to shareholders will contain comprehensive narrative on current activities.

This report marks the closing of one chapter in the Corporate history of both Cochrane Oil & Gas Ltd. and Maxxwell Energy Corp. and the opening of another. With the combined attributes of the two organizations, we look forward to successful business activities for the benefit of all Co-Maxx shareholders.

submitted on behalf of the
Board of Directors

Gerald J. Hipple,
President and
Chief Executive Officer

CO-MAXX ENERGY GROUP INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1987

CO-MAXX ENERGY GROUP INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1987

Thorne Ernst & Whinney

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AUDITORS' REPORT

To the Shareholders of
Co-Maxx Energy Group Inc.

We have examined the consolidated balance sheet of Co-Maxx Energy Group Inc. as at December 31, 1987 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for the depreciation of gas processing facilities as described in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Thorne Ernst & Whinney

May 6, 1988

CO-MAXX ENERGY GROUP INC.

CONSOLIDATED BALANCE SHEET

	December 31 1987	1986 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and term deposits	$ 470,298	$ 427,262
Accounts receivable	761,407	592,663
Due from shareholders	-	40,969
Deposits and prepaid expenses	24,409	46,243
	1,256,114	1,107,137
NOTE RECEIVABLE	-	856,000
PROPERTY, PLANT AND EQUIPMENT (note 3)	7,250,616	9,753,517
OTHER ASSETS	6,347	2,200
	$8,513,077	$11,718,854
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$1,114,723	$ 1,533,843
Current portion of gas production prepayments	28,495	56,093
Current portion of long term debt (note 4)	102,000	8,790,219
	1,245,218	10,380,155
LONG TERM DEBT (note 4)	4,298,000	-
GAS PRODUCTION PREPAYMENTS (note 5)	219,732	418,616
SHAREHOLDERS' EQUITY		
Share capital (note 6)	2,750,127	9,005,544
Deficit	-	(8,085,461)
	2,750,127	920,083
	$8,513,077	$11,718,854

Contingencies and Commitments (note 9)

APPROVED ON BEHALF OF THE BOARD:

_______________ Director

_______________ Director

CO-MAXX ENERGY GROUP INC.

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended December 31 1987	1986 (Restated)
Revenue		
Petroleum and natural gas sales	$1,356,926	$1,809,128
Processing revenue	834,219	729,739
Field operating revenue	254,949	220,564
Interest and other	42,534	59,993
	2,488,628	2,819,424
Expenses		
Operating	722,471	779,727
Plant operating costs	224,426	197,441
Interest - long term debt	843,752	961,879
- other	14,367	51,127
General and administrative	850,572	726,831
Depletion and depreciation	779,816	756,311
	3,435,404	3,473,316
Loss before undernoted items	946,776	653,892
Gain on sale of plant and facilities	(112,485)	-
Write-down of note receivable	209,729	-
Loss on investment	-	41,437
Write-down of property, plant and equipment	-	4,209,000
Write-down of mining claims	-	314,461
	97,244	4,564,898
Loss before income taxes	1,044,020	5,218,790
Income taxes (note 7)		
Deferred (reduction)	-	(750,206)
LOSS FOR THE YEAR	$1,044,020	$4,468,584

PER COMMON SHARE, based on the weighted average number of shares outstanding (note 1)

Loss for the year	$.27	$1.14

CO-MAXX ENERGY GROUP INC.

CONSOLIDATED STATEMENT OF DEFICIT

	Year ended December 31 1987	1986 (Restated)
Deficit at beginning of year		
As previously reported	$8,745,790	$3,775,517
Adjustment for change in accounting policy (note 2)	(660,329)	(158,640)
As restated	8,085,461	3,616,877
LOSS FOR THE YEAR	1,044,020	4,468,584
Net adjustment on corporate reorganization (note 1)	(2,308,255)	-
Reduction of stated capital	(6,821,226)	-
DEFICIT AT END OF YEAR	$ -	$8,085,461

CO-MAXX ENERGY GROUP INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31 1987	1986 (Restated)
CASH PROVIDED BY (USED FOR):		
OPERATIONS		
Loss for the year	$(1,044,020)	$(4,468,584)
Items not involving cash		
Depletion and depreciation	779,816	756,311
Write-down of note receivable	209,729	-
Gain on sale of plant and facilities	(112,485)	-
Write-down of property, plant and equipment	-	4,209,000
Deferred income tax reduction	-	(750,206)
Write-down of mining claims	-	314,461
Loss on investment	-	41,437
	(166,960)	102,419
Interest eliminated on debt settlement	1,116,254	-
Changes in non-cash operating working capital	(443,688)	470,492
	505,606	572,911
FINANCING		
Payment of bank production and demand loan	(7,102,547)	(376,271)
Gas production prepayments	(226,482)	(55,151)
Increase in long term debt	4,400,000	-
Issue of common shares	565,809	-
Reorganization costs	(335,671)	-
	(2,698,891)	(431,422)
INVESTMENTS		
Proceeds on sale of property, plant and equipment	2,600,000	-
Property, plant and equipment	(764,431)	(118,928)
Acquisition of Maxxwell, net of cash acquired of $158,090	(247,719)	-
Note receivable and other assets	648,471	-
	2,236,321	(118,928)
INCREASE IN CASH AND TERM DEPOSITS	43,036	22,561
Cash and term deposits at beginning of year	427,262	404,701
CASH AND TERM DEPOSITS AT END OF YEAR	$ 470,298	$ 427,262

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Co-Maxx Energy Group Inc. and its wholly-owned subsidiaries, 200316 Holdings Ltd., 373829 Alberta Ltd., 328034 Alberta Ltd. and Cochrane Oil & Gas Inc.

Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, geological and geophysical costs carrying charges on non-productive properties and overhead expenses related to exploration and development activities. These costs are depleted using the unit of production method based on estimated net proved reserves of petroleum and natural gas as determined by independent engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content.

Substantially all of the Company's exploration and production activities are carried on jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

The capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproved properties. The total capitalized costs less accumulated depletion and depreciation of all cost centres, less deferred income taxes, is further limited to an amount equal to the estimated future net revenue of all cost centres less estimated future general and administrative expenses, financing costs and income taxes.

Gas Processing Plant and Facilities

Gas processing plant and facilities are depreciated on a straight-line basis over their estimated useful life of twenty years.

Other Equipment and Leasehold Improvements

Depreciation of other equipment and leasehold improvements is provided on the diminishing balance basis at rates which will amortize the assets over their estimated useful lives.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mining Properties

Mining claims are recorded at the original cost of all claims acquired in each area of interest. Exploration and other expenditures pertaining thereto have been deferred and will be amortized, together with the cost of the related mining claims, against production from future mining operations. If any claims in an area of interest are surrendered, the cost of the claims and the related exploration expenses will be charged to earnings.

All of the mining claims are in the exploratory and development stage and a determination has not yet been made whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mining claims and deferred expenditures are dependent upon the existence of economically recoverable reserves and upon future profitable production.

Foreign Currency Translation

All monetary assets and liabilities denominated in U.S. currency are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets are translated at historical exchange rates. Revenue and expense items (excluding depreciation and depletion which are translated at the same rates as the related assets) are translated at the average rate of exchange for the year. Exchange gains and losses are included in earnings for the year.

Segmented Information

The Company's activities are primarily in one business segment, oil and gas exploration, development and production and are conducted in Canada.

1. CORPORATE REORGANIZATION AND DEBT RESTRUCTURE

Pursuant to a series of transactions between Cochrane Oil & Gas Ltd. ("Cochrane") and its bankers, together with Maxxwell Energy Corp. ("Maxxwell"), a Plan of Arrangement was approved by the shareholders of both Cochrane and Maxxwell, the affairs of Cochrane were reorganized as follows:

(a) Cochrane issued 800,000 Common Shares to a wholly owned subsidiary of Maxxwell;

(b) Cochrane and Maxxwell amalgamated to form Co-Maxx Energy Group Inc. ("the Company"), and the existing securities of both Cochrane and Maxxwell were exchanged for Common Shares or warrants of the Company as more fully described in note 6;

(c) certain assets of the Company were sold to a third party for cash consideration of $2,600,000 resulting in a gain of $112,485;

(d) The Company entered into a new banking arrangement and assumed a long term debt obligation of $4,400,000;

1. CORPORATE REORGANIZATION AND DEBT RESTRUCTURE (Continued)

(e) the Company advanced $6,000,000 as a loan to the wholly owned subsidiary of Maxxwell who in turn assumed a portion of Cochrane's bank indebtedness. The subsidiary then settled the bank indebtedness in exchange for $6,000,000 and the 100,000 Common Shares of the Company (800,000 before amalgamation). The remaining principal together with interest and net of $335,671 of corporate reorganization costs has been treated for financial statement purposes as an adjustment to the Company's deficit;

(f) the Company's deficit at December 31, 1987 was eliminated by a reduction of $6,821,226 in the stated value of the Company's issued Common Shares.

The Plan of Arrangement was approved by the shareholders of both Cochrane and Maxxwell on December 18, 1987 and became effective on January 11, 1988. These consolidated financial statements have been prepared on a basis which reflects the above noted transactions as if they had been effective on December 31, 1987.

As the reorganization resulted in the former shareholders of Cochrane owning a majority of the shares of the Company, the amalgamation has been treated, for accounting purposes, as an acquisition by Cochrane of the following assets and liabilities of Maxxwell and its subsidiaries:

Current assets (including cash of $158,090)	$244,337
Current liabilities	(4,874)
	239,463
Other assets	166,346
Net asset value	$405,809

The comparative financial statements for 1986 reflect the activities of Cochrane. The loss per share for each of 1986 and 1987 has been determined based on the number of shares outstanding after giving effect to the above noted transactions.

2. CHANGE IN ACCOUNTING POLICY

During the year the Company changed it's method of depreciating its gas processing plant and facilities from the unit of production method to the straight line method. As a result of this change, which has been adopted on a retroactive basis, the amounts recorded for depletion and depreciation together with the amount recorded for the write-down of property, plant and equipment have been decreased resulting in the net loss for 1987 and 1986 decreasing by $148,211 ($.04 per Common Share) and $501,689 ($.13 per Common Share) respectively. The deficit and accumulated depletion and depreciation at January 1, 1986 have each been decreased by $158,640.

3. PROPERTY, PLANT AND EQUIPMENT

	1987			1986
	Cost	Accumulated depletion and depreciation	Net	Net (restated)
Petroleum and natural gas leases and rights including exploration, development and equipment thereon	$10,779,537	$6,894,726	$3,884,811	$5,394,488
Gas processing plant and facilities	3,115,970	388,428	2,727,542	3,674,834
Office equipment	189,647	113,893	75,754	94,693
Leasehold improvements	153,924	109,974	43,950	71,707
	14,239,078	7,507,021	6,732,057	9,235,722
Mining claims	160,000	-	160,000	160,000
Drilling and camp equipment	18,804	18,330	474	678
Deferred expenditures	358,085	-	358,085	357,117
	536,889	18,330	518,559	517,795
	$14,775,967	$7,525,351	$7,250,616	$9,753,517

4. LONG TERM DEBT

	1987	1986
Bank term loan	$4,400,000	$ -
Bank production and demand loans	-	8,790,219
	4,400,000	8,790,219
Principal amount due within one year	(102,000)	(8,790,219)
	$4,298,000	$ -

The bank term loan is repayable over a period of seven years, is secured by the Company's petroleum and natural gas leases and rights and a fixed and floating charge debenture. Interest on the bank term loan is payable monthly at a rate of 1.5% over the bank's prime rate.

4. LONG TERM DEBT (Continued)

Long term debt principal repayments are scheduled as follows:

1988	$ 102,000
1989	204,000
1990	600,000
1991	696,000
1992	996,000
1993	1,104,000
1994	698,000
	$4,400,000

5. GAS PRODUCTION PREPAYMENTS

Amounts received for annual contracted natural gas volumes not taken by purchasers are deferred and recognized as revenue when deliveries are made over a ten year period commencing November 1, 1984.

6. CAPITAL STOCK

Authorized

Pursuant to the Amalgamation Agreement described in note 1 the authorized share capital of the Company consists of:

An unlimited number of First Preferred Shares without nominal or par value.

An unlimited number of Second Preferred Shares without nominal or par value.

An unlimited number of Common Shares without nominal or par value.

Issued

(a) Preferred Shares of Cochrane

During the year 14,000 First Preference Shares, Series A of Cochrane were converted into 112,000 Common Shares of Cochrane. As part of the reorganization described in note 1 the remaining Preferred Shares of Cochrane were exchanged for Common Shares of the Company as follows:

6. CAPITAL STOCK (Continued)

	Number of shares outstanding prior to the reorganization	Common Shares issued on exchange	Amount
First Preference Shares, Series A	187,000	433,840	$1,870,000
First Preference Shares, Series B	114,840	266,429	1,148,400
Second Preference Shares, Series A	75,000	338,625	492,700
		1,038,894	$3,511,100

(b) Common Shares

	Number of Shares	Amount
Common Shares of Cochrane		
Balance at December 1986	7,568,780	$5,354,444
Issued on conversion of First Preference Shares, Series A	112,000	140,000
Balance prior to reorganization on December 31, 1987	7,680,780	$5,494,444
Common Shares of the Company		
Issued		
- in exchange for Common Shares of Cochrane	960,098	$5,494,444
- in exchange for Preferred Shares of Cochrane	1,038,894	3,511,100
- in exchange for Shares of Maxxwell	1,820,051	405,809
- on exchange of Cochrane shares issued on reorganization	100,000	160,000
	3,919,043	9,571,353
Reduction of stated capital (note 1)		(6,821,226)
		$2,750,127

6. CAPITAL STOCK (Continued)

(c) At January 11, 1988 435,000 warrants of the Company were outstanding. Each warrant entitles the holder to purchase one Common Share at a price $1.75 per Common Share at any time prior to May 31, 1988.

7. INCOME TAXES

(a) As at December 31, 1987, the Company had the following approximate amounts available to reduce future years' earnings for income tax purposes, the benefit which has not been recorded in the accounts (all subject to final determination by taxation authorities):

	Canada	United States
Loss for income tax purposes		
(expiring in varying amounts beginning in 1989)	$1,716,000	$ -
(expiring in varying amounts beginning in 1995)	-	836,000
Deficiency of tax values over net book vlaue of property, plant and equipment	(613,000)	-
	$1,103,000	$836,000

(b) Income tax expense differs from the amounts which would be obtained by applying the Canadian basic federal income tax rate of 46% to the respective years' loss before income taxes. The difference between the computed "expected" income tax provision and the actual income tax provisions are summarized as follows:

	1987	1986
Computed "expected" tax recovery	$(480,249)	$(2,400,643)
Non-deductible Crown charges net of provincial credits	(11,698)	10,300
Non-allowable depletion and write-down of costs of acquired assets with no tax basis	-	1,521,643
Federal resource allowance	(36,646)	(81,200)
Non-taxable portion of capital gain	52,000	-
Reduction of deferred production revenue	96,600	-
Difference in effective rate of previously accumulated timing differences	-	137,994
Other non-deductible expenses	-	1,400
Tax benefit of loss not recognized due to lack of virtual certainty	379,993	60,300
	$ -	$ (750,206)

8. RELATED PARTY TRANSACTIONS

(a) In 1986 the Company farmed-out its interest in mining claims to a company in which the then President of the Company and currently the Chairman of the Board of the Company is an officer and director.

(b) During the year a certain director transferred property interests to the Company to satisfy an outstanding shareholder account in the amount of $33,564.

9. CONTINGENCIES AND COMMITMENTS

(a) The Company has lease agreements in respect of office premises for which future minimum payments are approximately $118,000 and $49,000 in 1988 and 1989 respectively.

(b) A statement of claim has been filed against the Company for $170,000 regarding the Company's purchase and sale of certain assets. On August 13, 1987 the Company was granted Summary Judgement and the claim was dismissed, with costs. The claimant has appealed the judgement. The outcome is not determinable at this time, however management is of the opinion that the claim is unfounded and without merit.